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Commission Position on the State Budget Ballot Measure Proposed for June 2011

California Postsecondary Education Commission
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Background

Governor Brown's 2011–12 budget proposal closes a projected \$25 billion shortfall through a combination in spending reductions in state and local public programs, a realignment of state services to local governments, and a five-year extension of temporary tax increases set to expire June 30, 2011. Spending reductions account for \$12.5 billion of the Governor's budget solutions. These include \$1.4 billion in cuts to the state's three public higher education systems.

The 2009–10 state budget included the following tax rate increases to address a then-projected substantial budget shortfall:

- A surcharge of 0.25% to the state Personal Income Tax rate.
- A reduction in the dependent exemption credit in personal income tax to the same level as the personal exemption credit.
- An increase of 1.15% in the Vehicle License Fee rate.
- An increase in the state Sales and Use Tax rate to 6%. Local governments have increased the local portion of the sales tax rate over time.

Governor Brown proposes that the tax extensions be subject to voter approval and called for a special election in June 2011. The expiration of the temporary tax increases in tax rates at the end of the 2010–11 fiscal year would result in a loss of \$7.2 billion in revenues for 2011–12.

With other tax-related proposals in the budget, maintaining current tax rates for another five years could generate \$8.9 billion in 2010–11. The Governor has proposed an aggressive timeline for passage, with the Legislature adopting a budget ready for the Governor to sign by early March, which would also be the deadline to place the tax extensions before the voters at a special election in June.

Decisions in the Budget

The Governor's proposal makes many difficult decisions in cutting public services, changing the relationship between the state and local governments in the way public services are provided, and generating additional revenues. Without the revenues from the proposed tax extensions and other revenue-generating budget solutions, General Fund revenues for 2011–12 (after accounting for a 2010–11 year-end deficit) would be only \$76 billion — the same level of State General Fund spending as in 2000–01.

Since 2001, the state's population has grown from 34 million to 39 million, and public higher education enrollments have grown from 2.1 million to 2.4 million. Needs for education and other public services have grown during the recession, while the levels of these services have declined. If the voters do not approve the tax extensions, the additional spending reductions needed to balance the budget could severely harm critical state and local government services and result in even deeper cuts to higher education.

The absence of these billions of dollars can only result in lower levels of access and less likelihood of success for many students, with longstanding harm to the economy that would result in part from lower levels of educational attainment.

Recommendation

At its March 2 meeting, the Commission adopted the following position.

The Commission recognizes the challenges the state is facing in dealing with the effects of the recent recession. Sacrifices have been made by all Californians to maintain our state and to grow it beyond the downturn. The Commission believes that the Governor's proposal is balanced and moves in the right direction of making the changes needed to address California's structural deficit through lower spending, more stable revenues, and more efficient provision of government services.

In consideration of this plan, the Commission supports the Governor's proposal to call a special election in June 2011 with a ballot measure to extend the current temporary tax rate increases, and further supports the extension of the tax rates as proposed by the Governor.

The Commission would be remiss if it failed to call attention to the draconian impact of the \$1.4 billion in reductions to higher education proposed in the budget under consideration, particularly considering the budget reductions of the past few years. These cuts will do severe harm to access, affordability, and quality of public higher education in California and will severely compromise the state's ability to maintain and develop the educated population needed for growth and innovation in our economy.